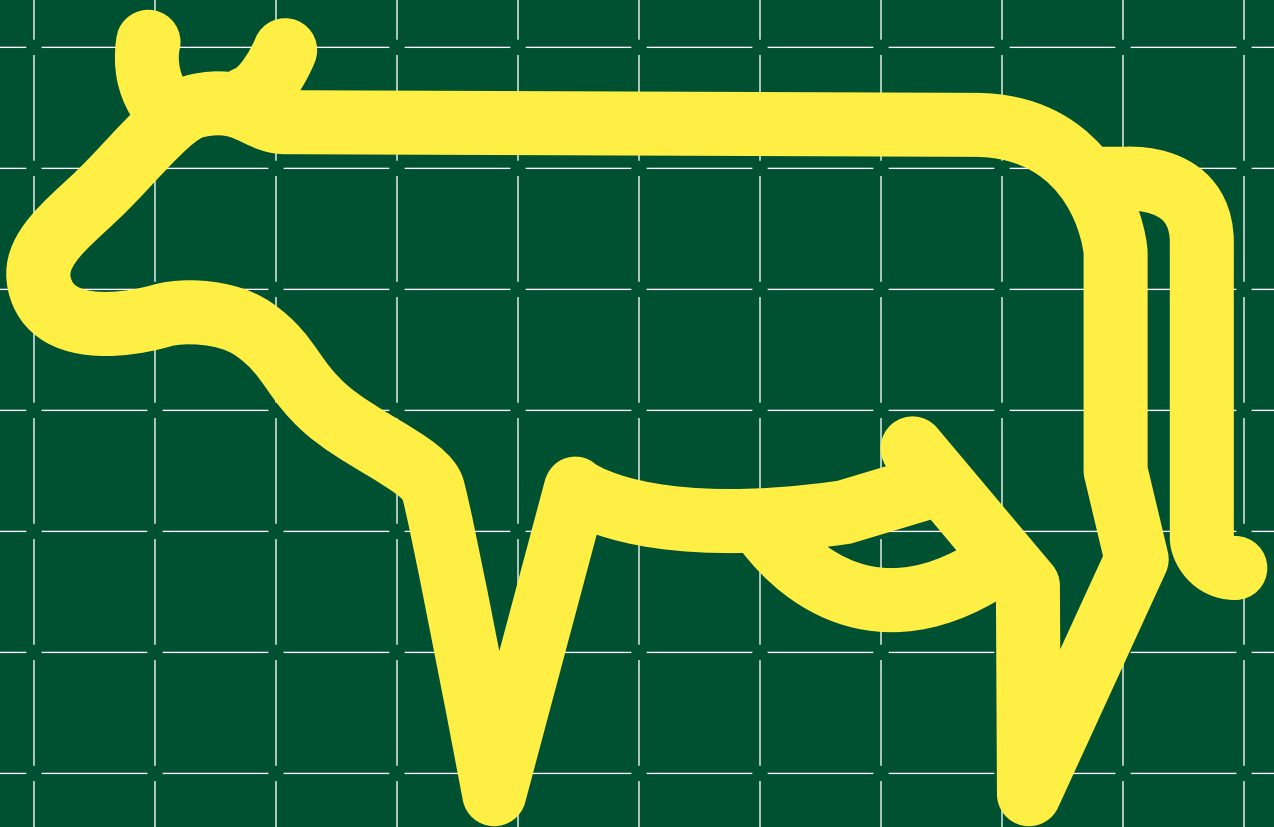




Federated Farmers

New Season Farm Confidence Survey

July 2019





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1 Summary





Most Profitable Region
East Coast North Island



Most Profitable Industry
Meat and Wool



Most Profitable Region
(looking ahead):
Waikato BOP



Most Profitable Industry
(looking ahead):
Dairy



Greatest Concern to Farmers:
Climate Change Policy and ETS



Highest Priority for Government:
Economy and Business
Environment

1 Summary

1.1 Introduction

This report summarises the results of the July 2019 Federated Farmers' New-Season Farm Confidence survey. The survey is undertaken twice a year (in January and July); this study is the 21st iteration. The survey was completed for Federated Farmers by Research First, New Zealand's leading agricultural market research company.

1.2 Key Messages

The July 2019 survey observed another decrease in farmer confidence that has been evident as a trend since July 2017. Farmer optimism has decreased in some but not all areas, and negative perceptions of the economy continue. Expectations for farm production have become less positive compared to one year ago and farm debt levels have increased slightly over the past six months. Profitability expectations have improved, but remain negative, and farm spending is expected to moderate, but remains positive.

- Whilst the proportion of farms that consider current general economic conditions to be good has decreased slightly over the past six months, the proportion that consider conditions to be bad still remains lower – but only just. Looking forward, the survey finds the lowest level of confidence in the economy since July 2009, in the wake of the Global Financial Crisis. Farmers share the wider business community's gloom about the economy and continue to be particularly concerned about the impact of global uncertainty and instability (e.g., Brexit and US-China trade relations) on our key markets and export returns.
- Just over one half of all farms are currently making a profit (55.0%), which is similar to January 2019 (56%). The proportion of farms making a loss has increased slightly by 2 points to 11.3%. Looking ahead 12 months, more farmers still expect their profitability to worsen rather than improve but expectations have improved a little since January's survey.
- Optimism of future farm production has decreased slightly over the past six months, particularly for Meat & Wool farms. All regions still expect farm production to increase over the coming 12 months but they are mostly less optimistic than six months ago, with large falls in expectations for Auckland-Northland and Taranaki-Manawatu. However, 'Other' farms have seen the largest net positive change in optimism compared to the last survey (+12.9%).
- Farms overall expect their farm spending to slow over the next 12 months, but despite a 12-point fall in the net spending score farmers expecting to increase their spending still outnumber those expecting to reduce spending by 6 points. This is particularly the case for Meat & Wool and Arable farmers who also happen to be the least optimistic about profitability and production.
- Most farms have debt in July 2019 (90.2%). Looking ahead, more farmers expect to reduce debt compared to increase debt. Arable farms are most likely to increase farm debt. Meat & Wool farms continue to have the lowest proportion of farms with debt, whilst Dairy farms have the highest. All regions have more farmers expecting to reduce debt than increase debt over the next 12 months, particularly in East Coast North Island.

- Taking all trends into consideration, the most confident farm industry is Dairy farms, and the most confident regions are East-Coast North Island and Otago Southland.
- Farmers continue to find it increasingly difficult to recruit skilled and motivated staff, a trend that has been evident since January 2010. The net score since the January 2019 survey has increased, which might reflect seasonal factors but will also reflect the generally tight labour market and immigration restrictions.
- In July 2019, the greatest concern for farmers is climate change policy & ETS, with a 14-point increase on January 2019. This rise in concern reflects unease about the Zero Carbon Bill's emissions reduction targets and whether agricultural emissions will be included in the ETS. This is followed by regulation and compliance costs and debt, interest, and banks. The latter is due to banks becoming more conservative in their lending and the increasing cost of lending in response to Reserve Bank proposals in bank capital.
- The highest government priority identified by farmers is the economy & business environment, which has eclipsed biosecurity. Regulation & compliance costs continue to be a high priority (in second place), and fiscal policy is also becoming more important.

2 General Economic Conditions



2 General Economic Conditions

2.1 Overall

Since the previous survey there has been a reduction in the net proportion of respondents with a positive perception of current economic conditions, but they still remain net positive.

One quarter of farms perceive general economic conditions to be good (down 7 points), which is the lowest rating from farmers since July 2016. One fifth also perceive the general economic conditions to be bad (up 9 points), the highest rating also since January 2017 (but not as low as in July 2016). The balance of more than half say conditions are neither good nor bad (down 2 points).

The net score of +3.6 is down 17 points on January 2019 and is well down on July 2017's +53 (Table 2.1).

Since the last survey in January 2019, commodity prices increased but GDP growth continued to slow and global economic risks increased. The OCR was cut in May 2019 to a record low 1.50%.

Table 2.1 Current perceptions of general economic conditions for all farms

	Good General Economic Conditions Currently	Neither Good nor Bad	Bad General Economic Conditions Currently	Don't Know	January 2019 Net Score*	July 2019 Net Score	Change
All farms	24.9%	52.9%	21.3%	0.9%	20.3	3.6	-16.8↓

**Please refer to Section 11.2 for more information about net scores*

Since peaking in July 2017, expectations about general economic conditions have fallen with every survey. This trend has continued making the July 2019 result the lowest level of farm confidence since July 2009 (Table 2.2). The change in net score of -10.6 in July 2019 is also substantially larger than the drop six months ago (-1.5).

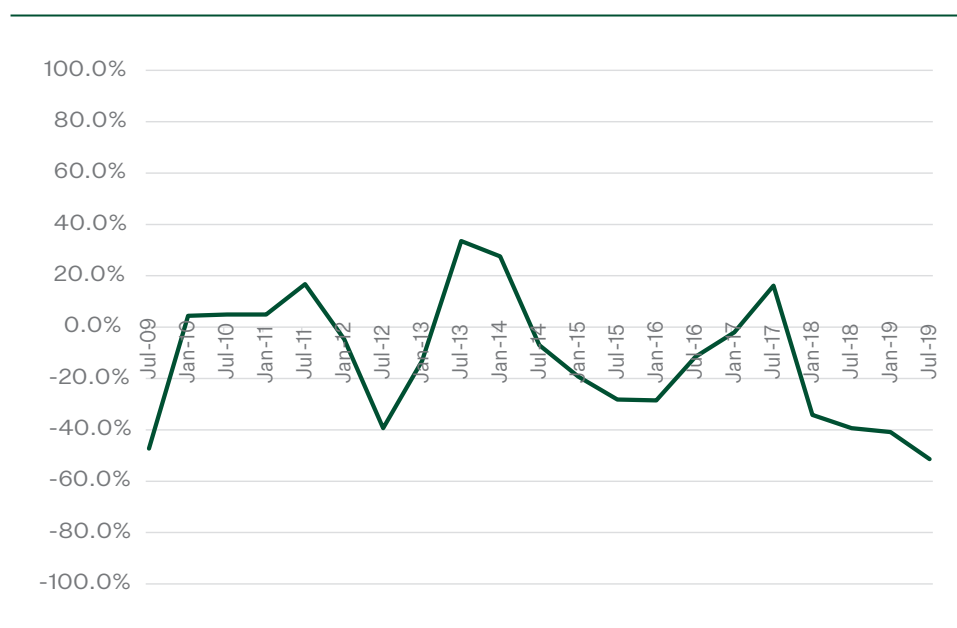
Over the past two years the biggest change has been an increase in the level of pessimism (increased nearly six-fold since July 2017), whilst optimism has reduced by the same factor. Compared to six months ago optimists have slipped slightly to below 5% while pessimists are up 10 points to 56%. Fewer farms expect general economic conditions to stay the same than six months ago (down 9 points), and at 37% this is the lowest percentage since the survey began in 2009.

Concern about the global economy is weighing on sentiment, with Brexit and US-China trade relations continue to add unwanted uncertainty. Business and consumer confidence have fallen, and the domestic economy is expected to continue. Further cuts to the OCR are likely and there have been calls for more expansionary fiscal policy to stimulate the economy.

Table 2.2 Predictions of general economic conditions for all farms over the next 12 months

	Improve	Stay Same	Worsen	Don't Know	January 2019 Net Score	July 2019 Net Score	Change
All farms	4.5%	36.9%	55.9%	2.8%	-40.8	-51.4	-10.6↓

Figure 2.1 shows how the net scores for predicted general economic conditions have tracked over the life of the survey. The drops over the past four surveys have unwound the gains made in the four surveys from January 2016 to July 2017. Note however that the net scores have oscillated over the past ten years which shows that perceptions about the general economy can be volatile.

Figure 2.1 Net predictions of general economic conditions for all farms (July 2009-July 2019)

2.2 Industry Groups

Meat & Wool are (by a large margin) the most positive industry group about current economic conditions, and 41% report good conditions, although their sentiment has deteriorated since the last survey. All other industry groups have considerably more pessimists than optimists, although the farms that report neither good nor bad conditions remain stable at around 50% of each group (Table 2.3). All industries have decreases in their net scores.

Table 2.3 Current perceptions of general economic conditions by industry group

	Good General Economic Conditions Currently	Neither Good nor Bad	Bad General Economic Conditions Currently	Don't Know	January 2019 Net Score	July 2019 Net Score	Change
Dairy	16.5%	56.3%	26.1%	1.1%	-0.1	-9.6	-9.5↓
Meat & Wool	40.8%	46.1%	12.7%	0.7%	50.7	28.1	-22.6↓
Arable	7.3%	63.6%	27.3%	1.8%	9.2	-20.0	-29.2↓
Other	19.8%	51.9%	27.2%	1.2%	21.7	-7.4	-29.1↓

Dairy and Meat & Wool both had relatively modest reductions in their net scores, around 8 points for each (Table 2.4).

Table 2.4 Predictions of general economic conditions by industry group

	Improve	Stay Same	Worsen	Don't Know	January 2019 Net Score	July 2019 Net Score	Change
Dairy	5.0%	35.6%	55.6%	3.8%	-42.7	-50.6	-7.9↓
Meat & Wool	4.5%	41.2%	52.9%	1.4%	-39.9	-48.4	-8.5↓
Arable	1.8%	27.3%	69.1%	1.8%	-40.0	-67.3	-27.3↓
Other	1.2%	30.9%	65.4%	2.5%	-39.1	-64.2	-25.1↓

2.3 Regions

Five of seven regions have negative net scores for current economic conditions, with West Coast-Tasman-Marlborough having the largest negative net score change, and Waikato-Bay of Plenty, the smallest negative net score change. The Meat & Wool dominant East Coast North Island remains the region with the highest percentage stating good general economic conditions, followed by Otago-Southland, and Canterbury (Table 2.5).

Table 2.5 Current perceptions of general economic conditions by region

	Good General Economic Conditions Currently	Neither Good nor Bad	Bad General Economic Conditions Currently	Don't Know	January 2019 Net Score	July 2019 Net Score	Change
Auckland-Northland	13.7%	57.9%	27.4%	1.1%	8.7	-13.7	-22.3↓
Waikato-Bay of Plenty	18.5%	57.5%	22.9%	1.1%	5.0	-4.4	-9.3↓
East Coast North Island	41.9%	43.5%	13.6%	1.0%	51.7	28.3	-23.5↓
Taranaki-Manawatu	18.8%	59.2%	20.7%	1.4%	13.0	-1.9	-14.9↓
West Coast (WC)-Tasman- Marlborough	14.3%	58.7%	27.0%	0.0%	23.6	-12.7	-36.3↓
Canterbury	26.1%	49.0%	24.1%	0.8%	23.1	2.0	-21.1↓
Otago-Southland	31.9%	48.8%	18.9%	0.4%	29.2	13.0	-16.2↓

Looking ahead, all seven regions have many more respondents expecting general economic conditions to worsen compared to improve. That said, all seven regions also had reasonably high percentages expecting conditions to stay the same. All seven regions had drops in their net scores, with the largest decrease in Canterbury (Table 2.6).

Table 2.6 Predictions of general economic conditions by region

	Improve	Stay Same	Worsen	Don't Know	January 2019 Net Score	July 2019 Net Score	Change
Auckland-Northland	3.2%	34.7%	58.9%	3.2%	-45.2	-55.8	-10.6↓
Waikato-Bay of Plenty	5.7%	34.6%	56.9%	2.7%	-46.6	-51.2	-4.7↓
East Coast North Island	4.7%	41.9%	51.3%	2.1%	-37.2	-46.6	-9.4↓
Taranaki-Manawatu	5.2%	40.8%	49.3%	4.7%	-37.4	-44.1	-6.7↓
West Coast (WC)-Tasman- Marlborough	4.8%	36.5%	57.1%	1.6%	-34.7	-52.4	-17.7↓
Canterbury	4.8%	28.1%	65.9%	1.2%	-42.2	-61.0	-18.8↓
Otago-Southland	2.0%	42.5%	52.0%	3.5%	-36.4	-50.0	-13.6↓

3 Farm Profitability



3 Farm Profitability

3.1 Overall

Similar to January 2019, 55% of farms report being currently profitable. A further 30% are breaking even and only 11% are making a loss (although this is slightly more than in the last survey). Compared to the previous survey, the net score for current profitability decreased by 3 points to +44 (Table 3.1). The proportion of farms making a loss has stabilized over the past two years.

Table 3.1 Current perceptions of profitability: all farms

	Making a Profit	Breaking Even	Making a Loss	Rather not Say	Don't Know	January 2019 Net Score	July 2019 Net Score	Change
All farms	55.3%	29.4%	11.3%	2.7%	1.3%	46.7	44.0	-2.7↓

Looking ahead, there has been a moderate increase in expectations for profitability over the next 12 months and the net score has increased by 7 points to -4 in this survey iteration.

Compared to January 2019 the proportion of farmers expecting their profitability to improve is up 3 points to 21.5% and those expecting it to worsen is down 4 points to 25.6%. Almost half expect profitability to stay the same – unchanged from January 2019 (Table 3.2).

The increase in net score predictions of farm profitability over the next 12 months probably reflects the fairly decent commodity prices generally (not just dairy), and the relatively benign early winter weather, which if it carried on should be positive for production.

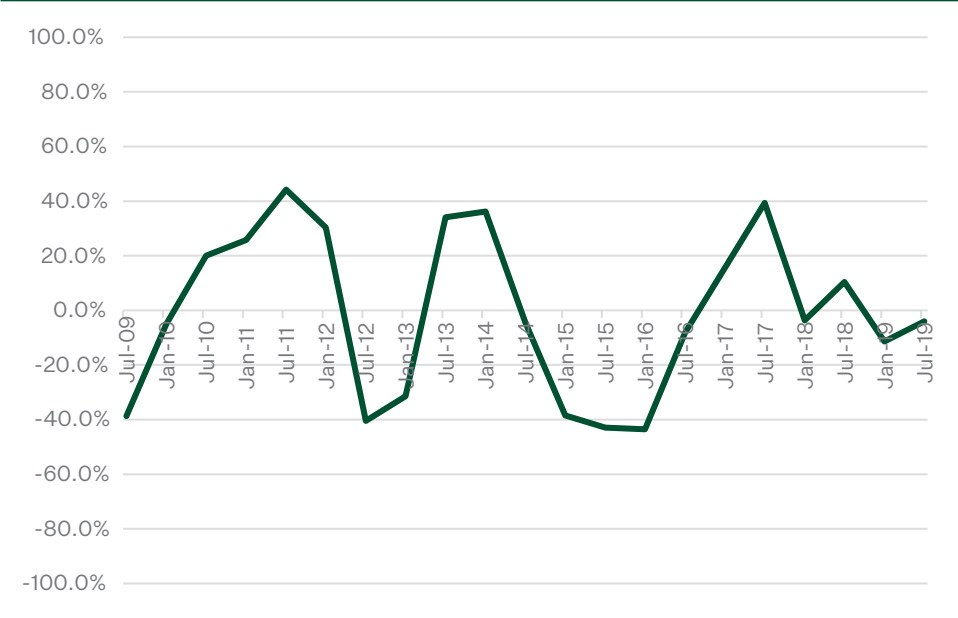
Table 3.2 Predictions of farm profitability over the next 12 months: all farms

	Improve	Stay Same	Worsen	Don't Know	January 2019 Net Score	July 2019 Net Score	Change
All farms	21.5%	49.7%	25.6%	3.3%	-11.4	-4.1	7.4%↑

Figure 3.1 illustrates the net predictions of all farm profitability since July 2009, which, similar to economic predictions (Figure 2.1), has oscillated markedly over time.

A disconnect has opened up between expectations of farm profitability and expectations for the general economy. This is consistent with other business confidence surveys.

Figure 3.1 Net predictions of all farm profitability (July 2009–July 2019)



3.2 Industry Groups

All industry groups continue to have more farms making a profit than making a loss (Table 3.3). Farms making a loss are in a small minority across the board, although the numbers have increased over the past six months as demonstrated by the negative changes in net scores for all industry groups.

The largest decline in net score was Other farms that have seen a noticeable change of -22 points over the past six months.

Over the past three years there has been a big decline in Dairy farmers making a loss, down from 60% in July 2016 to 14% in July 2019. This reflects the recovery from the 2014-16 dairy downturn.

Meat & Wool farmers continued to see a high level of current profitability with only a small drop in net score to +62.5, the highest of the four industry groups.

Table 3.3 Current farm profitability by industry group

	Making a Profit	Breaking Even	Making a Loss	Rather not Say	Don't Know	January 2019 Net Score	July 2019 Net Score	Change
Dairy	49.1%	33.2%	14.1%	2.4%	1.2%	37.8	35.0	-2.7↓
Meat & Wool	68.8%	23.0%	6.3%	2.0%	0.0%	62.7	62.5	-0.2↓
Arable	41.8%	38.2%	16.4%	3.6%	0.0%	32.3	25.5	-6.9↓
Other	49.4%	29.6%	14.8%	4.9%	1.2%	56.5	34.6	-22.0↓

Looking ahead over the next 12 months, most industry groups had around half of their respondents expecting their farm profitability to stay the same. Compared to January 2019, most industry groups had a reduction in profitability expectations, but Dairy farmers bucked the trend with a 20-point improvement to an even balance between optimists and pessimists.

All other industry groups are less optimistic than they previously were and there were still more pessimists than optimists, particularly in Arable farms as demonstrated by their net scores going negative.

Table 3.4 Predictions of expected farm profitability by industry group

	Improve	Stay Same	Worsen	Don't Know	January 2019 Net Score	July 2019 Net Score	Change
Dairy	24.0%	49.1%	24.0%	3.0%	-20.2	0.0	20.2↑
Meat & Wool	19.7%	51.6%	26.8%	2.0%	-1.5	-7.0	-5.6↓
Arable	16.4%	45.5%	32.7%	5.5%	-9.2	-16.4	-7.1↓
Other	22.2%	49.4%	27.2%	1.2%	-4.3	-4.9	-0.6↓

3.3 Regions

All seven regions continue to have positive net scores for current profitability. The Meat & Wool dominant East-Coast North Island is again the most positive region, with 64% of respondents reporting making a profit, followed again by Otago-Southland. West Coast-Tasman-Marlborough is relatively less positive with a 22-point drop in sentiment but still has a healthy net score of +24.

Compared to January 2019, four of the seven regions had decreases in their net scores. The exceptions were Auckland-Northland, East Coast NI, and Taranaki-Manawatu. (Table 3.5).

Table 3.5 Current farm profitability by region

	Making a Profit	Breaking Even	Making a Loss	Rather not Say	Don't Know	January 2019 Net Score	July 2019 Net Score	Change
Auckland-Northland	46.3%	38.9%	10.5%	2.1%	2.1%	32.7	35.8	3.1↑
Waikato-Bay of Plenty	46.3%	33.0%	16.3%	2.5%	1.9%	41.0	30.0	-11.1↓
East Coast North Island	71.7%	17.8%	7.9%	2.1%	0.5%	62.2	63.9	1.7↑
Taranaki-Manawatu	54.9%	31.0%	9.4%	3.3%	1.4%	39.5	45.5	6.0↑
WC-Tasman-Marlborough	41.3%	39.7%	17.5%	1.6%	0.0%	45.8	23.8	-22.0↓
Canterbury	55.8%	27.7%	10.4%	4.8%	1.2%	48.0	45.4	-2.6↓
Otago-Southland	62.6%	27.2%	7.9%	1.2%	1.2%	56.4	54.7	-1.6↓

Looking ahead, only one of the seven regions is in positive territory for profitability, West Coast-Tasman-Marlborough. However, six of the seven regions had increases in their net scores, with Waikato-Bay of Plenty (+18 points), followed by Auckland-Northland (+17 points). East Coast North Island and Taranaki-Manawatu were two regions with only small improvements in their sentiments, while Otago-Southland was down.

Table 3.6 Predictions of expected farm profitability by region

	Improve	Stay Same	Worsen	Don't Know	January 2019 Net Score	July 2019 Net Score	Change
Auckland-Northland	18.9%	49.5%	28.4%	3.2%	-26.0	-9.5	16.5↑
Waikato-Bay of Plenty	22.1%	49.9%	24.3%	3.8%	-20.4	-2.2	18.2↑
East Coast North Island	20.9%	52.4%	24.1%	2.6%	-5.8	-3.1	2.7↑
Taranaki-Manawatu	22.1%	51.6%	23.5%	2.8%	-3.4	-1.4	2.0↑
WC-Tasman-Marlborough	27.0%	52.4%	17.5%	3.2%	-2.8	9.5	12.3↑
Canterbury	18.5%	44.2%	33.3%	4.0%	-18.8	-14.9	3.9↑
Otago-Southland	23.2%	50.4%	23.6%	2.8%	2.5	-0.4	-2.9↓

4 Farm Production



4 Farm Production

4.1 Overall

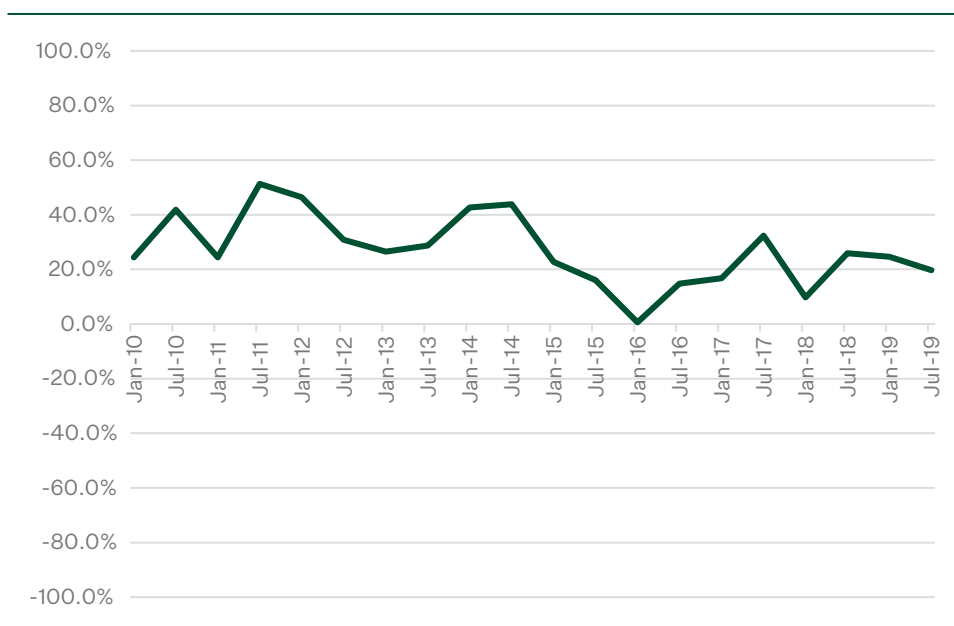
The July 2019 survey shows farmers' expectations about future production have reduced slightly after stabilising over the previous 12 months (Figure 4.1). Although the majority of farmers (60%) still expect their production to remain similar, the proportion of those expecting it to increase has fallen slightly to 29% (down 2 points compared to six months ago), while those with more pessimistic views about farm production have increased to 9.4% (up 3 points from six months ago). As a result, the net score has reduced by 5 points (Table 4.1).

Although, favourable weather conditions have been a key reason for stabilisation in farm production over the past 12 months, the net score remains below levels seen in earlier years of the survey (Figure 4.1). Factors likely to put downward pressure on agricultural production include the impacts of environmental limits being set through RMA plans and policies and afforestation driven by the ETS, overseas investment rules, and the One Billion Trees programme.

Table 4.1 Predictions of farm production over the next 12 months: all farms

	Increase	Stay Same	Reduce	Don't Know	January 2019 Net Score	July 2019 Net Score	Change
All farms	29.1%	59.7%	9.4%	1.7%	24.6	19.7	-4.9↓

Figure 4.1 Net predictions of farm production: all farms (January 2010–July 2019)



4.2 Industry Groups and Regions

All industry groups have positive net scores for production, but the Other farms are the most optimistic, expecting an increase in production compared to January 2019 levels (+13 points). The least optimistic industry group was Meat & Wool farms, with a net score of +17.6, down 10 points on January 2019. Dairy and Arable had small reductions in production expectations.

Table 4.2 Predictions of future farm production by industry group

	Increase	Stay Same	Reduce	Don't Know	January 2019 Net Score	July 2019 Net Score	Change
Dairy	30.7%	58.6%	9.5%	1.2%	23.4	21.2	-2.1↓
Meat & Wool	27.0%	63.3%	9.4%	0.4%	27.4	17.6	-9.8↓
Arable	30.9%	60.0%	7.3%	1.8%	26.2	23.6	-2.5↓
Other	37.0%	49.4%	11.1%	2.5%	13.0	25.9	12.9↑

All seven regions have positive net scores for future farm production. Otago-Southland is most optimistic region with 39% of farms expecting farm production to increase, while West Coast-Tasman-Marlborough, and Auckland-Northland are less confident.

Still, five of the seven regions had decreases in their net scores, with Auckland-Northland and Taranaki-Manawatu having the biggest drops in net scores (down 18.5 and 17.6 points respectively) although these negative perceptions are in juxtaposition with expectations for increased profitability (Table 4.3).

Table 4.3 Predictions of future farm production by region

	Increase	Stay Same	Reduce	Don't Know	January 2019 Net Score	July 2019 Net Score	Change
Auckland-Northland	24.2%	60.0%	15.8%	0.0%	26.9	8.4	-18.5↓
Waikato-Bay of Plenty	27.5%	62.4%	8.4%	1.6%	18.5	19.1	0.6↑
East Coast North Island	32.5%	57.6%	8.9%	1.0%	30.2	23.6	-6.7↓
Taranaki-Manawatu	24.9%	61.0%	12.2%	1.9%	30.3	12.7	-17.6↓
WC-Tasman-Marlborough	23.8%	63.5%	11.1%	1.6%	26.4	12.7	-13.7↓
Canterbury	25.7%	63.5%	8.0%	2.8%	20.2	17.7	-2.5↓
Otago-Southland	39.0%	51.6%	7.5%	2.0%	28.0	31.5	3.5↑

5 Farm Spending



5 Farm Spending

5.1 Overall

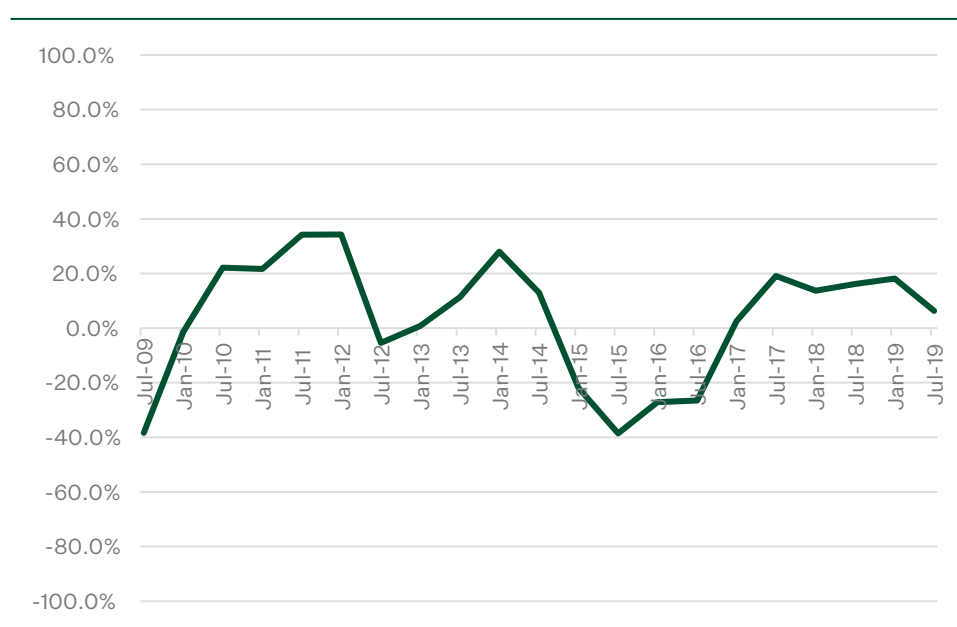
Farmers' spending expectations for the next 12 months are down on the January 2019 survey (-12 points net score) but remain net positive. While 33% expect their spending to increase, just over one quarter (27%) expect to reduce spending, leaving just under 40% expecting their spending to stay the same (Table 5.1).

Table 5.1 Predictions of expected farm spending over the next 12 months: all farms

	Increase	Stay Same	Reduce	Don't Know	January 2019 Net Score	July 2019 Net Score	Change
All farms	33.1%	38.8%	26.8%	1.3%	18.2	6.3	-11.9↓

The decrease in spending expectations echo the decreased expectations for farm production levels and the general lack of confidence in the sector. Farm input price inflation has picked up over the past year (to 3.1% for the year to March 2019) and this could be why more farmers continue to expect spending to increase rather than reduce (Figure 5.1).

Figure 5.1 Net predictions of expected farm spending (July 2009—July 2019)



5.2 Industry Groups and Regions

The overall decrease in spending expectations was mostly due to Meat & Wool and to a less extent Arable, and Dairy. Meat & Wool also happened to have the biggest decline in production expectations. Other farms moved into positive territory with a positive change in net score that mirrors their expected increase in production over the next 12 months (Table 5.2).

Table 5.2 Predictions of expected farm spending by industry group

	Increase	Stay Same	Reduce	Don't Know	January 2019 Net Score	July 2019 Net Score	Change
Dairy	33.3%	37.2%	28.4%	1.1%	12.2	4.9	-7.3↓
Meat & Wool	32.6%	42.8%	24.4%	0.2%	28.3	8.2	-20.1↓
Arable	30.9%	38.2%	29.1%	1.8%	15.4	1.8	-13.6↓
Other	34.6%	32.1%	33.3%	0.0%	-8.7	1.2	9.9↑

Six of seven regions have more respondents expecting to increase spending than reduce spending, with Otago-Southland in negative territory. Otago-Southland also had the biggest decrease in spending expectations, down 21 points, ahead of Taranaki-Manawatu, down 17 points. The region that had the smallest reduction in spending expectations is Canterbury (down 5 points from January 2019). (Table 5.3).

Table 5.3 Predictions of expected farm spending by region

	Increase	Stay Same	Reduce	Don't Know	January 2019 Net Score	July 2019 Net Score	Change
Auckland-Northland	32.6%	36.8%	29.5%	1.1%	13.5	3.2	-10.3↓
Waikato-Bay of Plenty	36.8%	32.7%	29.2%	1.4%	15.2	7.6	-7.5↓
East Coast North Island	31.4%	49.2%	18.8%	0.5%	25.0	12.6	-12.4↓
Taranaki-Manawatu	29.1%	42.3%	27.2%	1.4%	18.5	1.9	-16.6↓
WC-Tasman-Marlborough	36.5%	47.6%	15.9%	0.0%	33.3	20.6	-12.7↓
Canterbury	35.3%	36.5%	25.7%	2.4%	14.8	9.6	-5.2↓
Otago-Southland	29.5%	37.4%	31.9%	1.2%	19.1	-2.4	-21.4↓

6 Farm Debt



6 Farm Debt

6.1 Overall

Just over 90% of farms have debt, only marginally more than six months ago (89%). Of those farms with debt, 42% expect their debt to reduce over the next 12 months, which is a slight decrease from 6 months ago. Similar to January 2019, the number of farms expecting their debt to increase is 14%; but more farms (42%) expect their debt to stay the same. The net score of -25% is down 3 points on January's result. Overall, there has been little change in all farmers' debt positions over the past 18 months (Table 6.1).

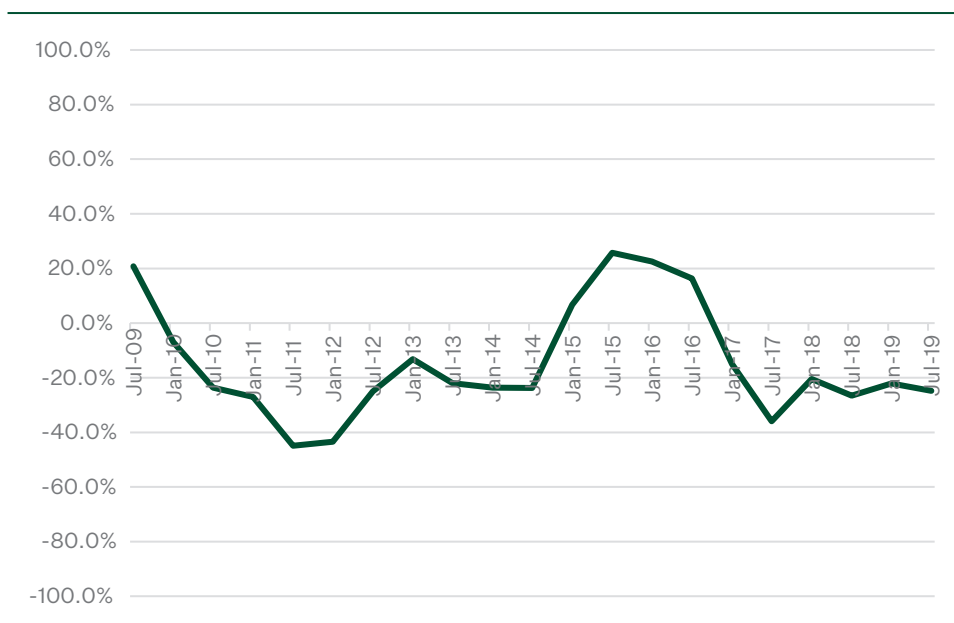
Table 6.1 Predictions of future farm debt over the next 12 months: all farms

	Increase	Stay Same	Reduce	Don't Know	No Debt	January 2019 Net Score	July 2019 Net Score	Change
All farms	12.8%	38.2%	37.7%	1.4%	9.8%	-22.1	-24.9	-2.8↓
All Farms with Debt	14.3%	42.4%	41.8%	1.5%		-24.8	-27.6	-2.7↓

The positive net debt score from January 2015 to July 2016 was during the last prolonged downturn in dairy prices which forced many dairy farmers to increase their debt to get through. Since then there has been a return to the 2010-14 results where more farmers expected to reduce debt than increase it (Figure 6.1).

These results are consistent with relatively slower growth in agricultural debt as shown in the Reserve Bank's Sector Lending Statistics (up 3.1% from June 2018 to June 2019).

Figure 6.1 Net predictions of future farm debt: all farms (July 2009 to July 2019)



6.2 Industry Groups and Regions

Dairy is the industry group with the highest proportion of those expecting to reduce debt and the lowest net scores for debt. Dairy also had a large 10-point declines in its net score compared to the previous survey. In contrast, Arable farms have shown a sharp increase in farms expecting to increase farm debt (up 20 points from six months ago) however, the small response number is more likely to show more variations than the larger industry groups.

Table 6.2 Predictions of farm debt by industry group

	Increase	Stay Same	Reduce	Don't Know	No Debt	January 2019 Net Score	July 2019 Net Score	Change
Dairy	11.2%	38.8%	43.7%	1.5%	4.7%	-22.9	-32.5	-9.6↓
Meat & Wool	14.3%	35.2%	34.4%	0.2%	16.0%	-24.4	-20.1	4.3↑
Arable	25.5%	47.3%	12.7%	1.8%	12.7%	-7.7	12.7	20.4↑
Other	12.3%	49.4%	25.9%	1.2%	11.1%	-8.7	-13.6	-4.9↓

All seven regions have more farms expecting to reduce debt compared to increasing debt, with West Coast-Tasman-Marlborough expecting to have the largest reduction in debt, possibly a reflection of Westland Milk Products' sale and the proceeds from it being used by its former shareholders to pay down debt.

East Coast North Island and Canterbury (the region with the most arable farmers) are the regions where there has been an increase in farmers expecting their farm debt to increase but are both still net negative (Table 6.3).

Table 6.3 Predictions of farm debt by region

	Increase	Stay Same	Reduce	Don't Know	No Debt	January 2019 Net Score	July 2019 Net Score	Change
Auckland-Northland	10.5%	35.8%	29.5%	0.0%	24.2%	-19.2	-18.9	0.3↑
Waikato-Bay of Plenty	14.2%	39.2%	37.6%	1.4%	7.6%	-16.0	-23.4	-7.5↓
East Coast North Island	13.6%	28.3%	43.5%	2.1%	12.6%	-39.5	-29.8	9.7↑
Taranaki-Manawatu	8.9%	41.3%	38.5%	0.9%	10.3%	-21.8	-29.6	-7.7↓
WC-Tasman-Marlborough	9.5%	31.7%	44.4%	0.0%	14.3%	-13.9	-34.9	-21.0↓
Canterbury	14.9%	44.2%	31.7%	1.6%	7.6%	-20.9	-16.9	4.1↑
Otago-Southland	13.4%	38.2%	40.2%	2.0%	6.3%	-24.2	-26.8	-2.6↓

7 Trends in Farmer Confidence



7 Trends in Farmer Confidence

Figure 7.1 provides an overview of farmer confidence and how it varies over time. The figure illustrates trends in farmer confidence (net scores) for five key predictors of farm performance, as follow:

1. Economic conditions;
2. Profitability;
3. Production;
4. Spending; and,
5. Farm debt¹.

Figure 7.1 shows that the net scores for all five forward-looking indicators have fluctuated over time although until the last 18 months, they have tended to move together.

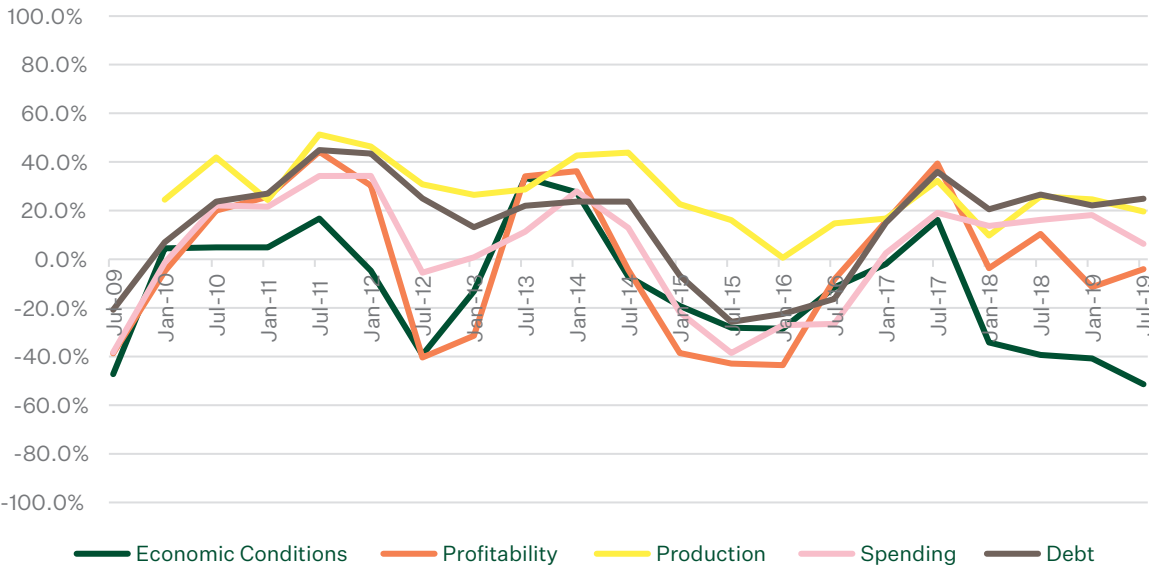
In this survey, all farm perceptions of economic conditions and production have deteriorated with the most dramatic change seen in farm confidence in the economy going forward (down 11 points). Expectations for farm spending are also down although remain net positive.

There is now a closing gap between the negative sentiment for general economic conditions and expected farm production and spending.

Farmers, like businesses generally, remain much more negative about economic prospects. The outlook for the global economy, trade wars and Brexit are naturally concerning for export-oriented businesses like farmers but there is also concern about some government policies, especially in the climate change and environmental spaces.

¹ Note that debt has been inverted to correct for polarity inconsistency, that is: an increase in debt in a negative indication.

Figure 7.1 Net perceptions of five key indicators of overall farmer confidence: all farms (July 2009-July 2019)



8 Ability to Recruit



8 Ability to Recruit

8.1 Overall

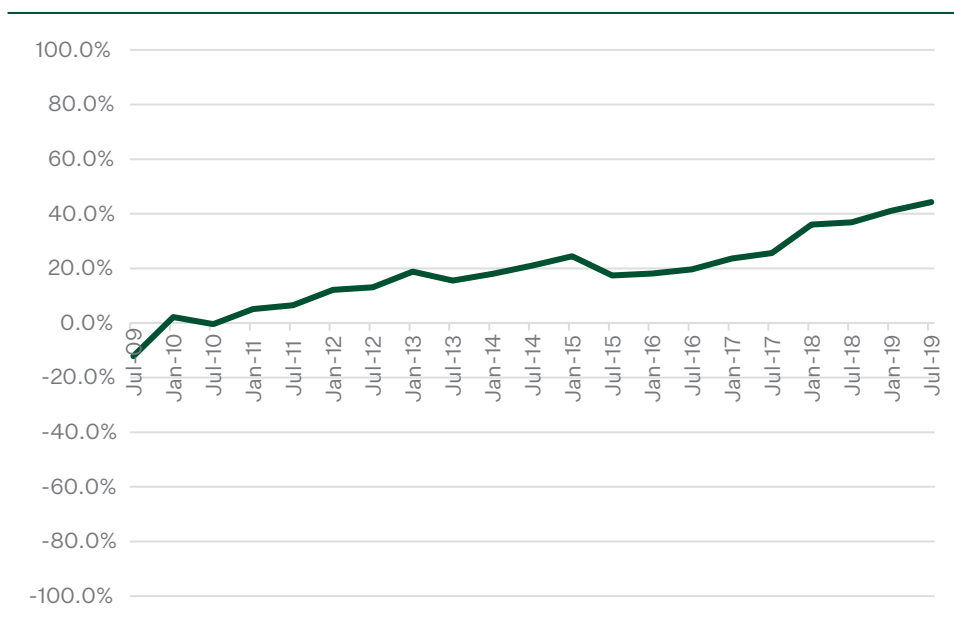
As in previous surveys, farms continue to have more difficulty recruiting skilled and motivated staff, with the gap between those who had found it harder and those who had found it easier widening further to a net score of +44. This upward trend has been evident since January 2010 and generally has increased slightly each survey iteration (Table 8.1).

Table 8.1 Ability to recruit skilled and motivated staff in the previous 6 months: all farms

	Harder	No change	Easier	Don't Know	Don't Employ	January 2019 Net Score	July 2019 Net Score	Change
All farms	45.1%	28.1%	0.8%	3.5%	22.4%	41.0	44.3	3.2↑

It continues to be evident that farmers are finding it more difficult to attract suitable staff over time and this is an increasing issue. The labour market is tight with low unemployment and high labour force participation, and recent restrictions to immigration policy continue to be exacerbating the problem (Figure 8.1).

Figure 8.1 Net ability to recruit skilled and motivated staff: all farms (July 2009-July 2019)



8.2 Industry Groups and Regions

Dairy and Other farms have experienced the most difficulty in their ability to recruit suitably experienced and motivated staff over the past six months. In comparison, Arable farms have found recruiting to be moderately less difficult compared to the last survey.

Of all farm types, Meat & Wool & Arable farms have the lowest employment rate of staff (Table 8.2).

Table 8.2 Difficulty to recruit skilled and motivated staff by industry group

	Harder	No change	Easier	Don't Know	Don't Employ	January 2019 Net Score	July 2019 Net Score	Change
Dairy	52.6%	30.3%	0.7%	4.2%	12.2%	51.0	52.0	0.9↑
Meat & Wool	35.0%	28.3%	1.0%	2.7%	33.0%	28.9	34.0	5.1↑
Arable	41.8%	18.2%	0.0%	5.5%	34.5%	47.7	41.8	-5.9↓
Other	50.6%	23.5%	2.5%	1.2%	22.2%	26.1	48.1	22.1↑

Taking a closer look at recruitment by regions, all regions had substantially more respondents finding it harder than easier to recruit skilled and motivated staff (Table 8.3). Four of seven regions experienced more difficulty compared to six months ago, particularly Otago-Southland and Waikato-Bay of Plenty. Auckland-Northland, and West-Coast-Tasman-Marlborough (and to a much lesser extent, Taranaki-Manawatu) were the exceptions (Table 8.3).

Table 8.3 Difficulty to recruit skilled and motivated staff by region

	Harder	No change	Easier	Don't Know	Don't Employ	January 2019 Net Score	July 2019 Net Score	Change
Auckland-Northland	34.7%	28.4%	0.0%	5.3%	31.6%	40.4	34.7	-5.6↓
Waikato-Bay of Plenty	48.5%	27.0%	0.8%	4.9%	18.8%	42.4	47.7	5.3↑
East Coast North Island	40.3%	36.6%	1.0%	2.6%	19.4%	37.2	39.3	2.1↑
Taranaki-Manawatu	41.3%	31.0%	1.9%	2.8%	23.0%	39.5	39.4	-0.1↓
WC-Tasman-Marlborough	34.9%	30.2%	1.6%	3.2%	30.2%	36.1	33.3	-2.8↓
Canterbury	47.0%	23.3%	0.4%	3.2%	26.1%	42.6	46.6	4.0↑
Otago-Southland	51.6%	25.2%	0.4%	2.4%	20.5%	43.2	51.2	8.0↑

9 Greatest Concerns



9 Greatest Concerns

9.1 Overall

In the July 2019 survey the single greatest concern for farmers (for the first time in ten years) was climate change policy & ETS (nearly one quarter of all farms). The second greatest concern was regulation & compliance costs (19%), followed by Debt, Interest and Banks (10%).

The concern about climate change policy & ETS reflects the Government's more ambitious approach to combatting climate change and what this might mean for farming. In particular the Zero Carbon Bill contains tough emissions reduction targets and the Government is considering the inclusion of biological emissions in the ETS. These policies will likely impact on farm production and on their costs of doing business and there are also fears of them driving widespread land use change, especially from sheep and beef to forestry, and what that will mean for farming and for rural communities.

Regulation & compliance costs is in second place with just under 20% of respondents selecting it as their greatest concern. This is a perennial concern for farmers and reflects both the former and current government proposing tougher policies, especially in the environmental space which will likely impact on farm production and on their costs of doing business. Workplace health & safety, employment, and immigration are other compliance cost areas of concern.

Debt, interest and banks has increased to third place to just under 10% of respondents. Interest rates are currently low, but the heightened concern reflects a tightening in lending conditions by banks and concerns about further tightening and higher interest rates from the Reserve Bank's bank capital proposals.

Concern about farmgate & commodity prices has decreased markedly from 14% six months ago to 6% in July 2019. This is a far cry from 2016 when it was the biggest concern for 48% of respondents. Commodity prices have generally been good over the past couple of years across most agricultural commodities.

The level of concern about pests, diseases and biosecurity that was evident in July 2018 at the height of *Mycoplasma bovis* has decreased substantially (down to 1.7%). The Government and industry's commitment and action to eradicate *Mycoplasma bovis* has eased some of the uncertainty for dairy and beef cattle farmers.

In addition, compared to the January 2019 survey there were also drops in concern for public perceptions of farming (down 2.5 points), staffing (down 2.5 points), the environment (down 1.8 points) and the weather (down 1.0 point) while there was a rise in concern about the political situation (up 1.4 points) - (Figure 9.1).

Figure 9.1 Top twelve greatest concerns for farmers: all farms (January 2019 vs July 2019)

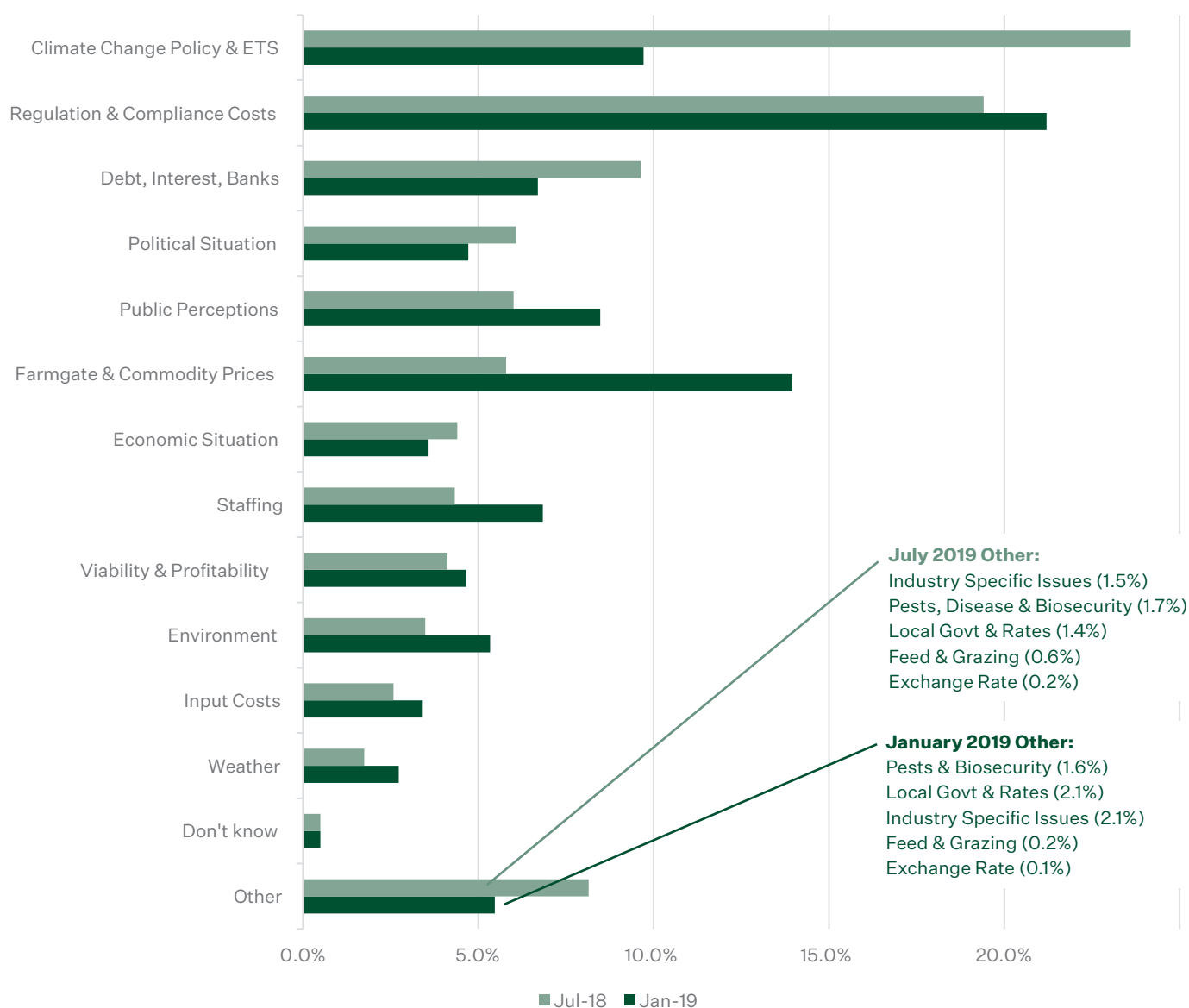


Table 9.1 shows how the top 12 issues of concern have tracked over the past three surveys.

Table 9.1 Top twelve greatest concerns over the 3 most recent surveys (January 2018 to January 2019)

Jul-18		Jan-19		Jul-19	
Regulation & Compliance Costs	18.1%	Regulation & Compliance Costs	21.2%	Climate Change Policy & ETS	23.6%
Pests, Disease & Biosecurity	12.3%	Farmgate & Commodity Prices	14.0%	Regulation & Compliance Costs	19.4%
Climate Change Policy & ETS	10.2%	Climate Change Policy & ETS	9.7%	Debt, Interest, Banks	9.6%
Political Situation	8.5%	Public Perceptions	8.5%	Political Situation	6.1%
Debt, Interest, Banks	6.1%	Staffing	6.8%	Public Perceptions	6.0%
Farmgate & Commodity Prices	6.0%	Debt, Interest, Banks	6.7%	Farmgate & Commodity Prices	5.8%
Staffing	5.9%	Environment	5.3%	Economic Situation	4.4%
Public Perceptions	5.0%	Political Situation	4.7%	Staffing	4.3%
Environment	4.9%	Viability & Profitability	4.7%	Viability & Profitability	4.1%
Economic Situation	4.1%	Economic Situation	3.6%	Environment	3.5%
Viability & Profitability	3.2%	Input Costs	3.4%	Input Costs	2.6%
Weather	2.5%	Weather	2.7%	Weather	1.7%

10 Highest Government Priorities

10

10 Highest Government Priorities

10.1 Overall

Figure 10.1 shows how the main priorities for government have changed since the January 2019 survey.

Similar to the last survey iteration, the most important government priority identified in this survey is economy & business environment (a notable increase of 8 points to 28%).

There was a decrease for regulation & compliance costs – it was down 4 points to 11%, although it continues to be in second place. The Government's more activist and interventionist bent is likely to impose more regulation and compliance costs rather than less, especially in the environment and employment areas.

Biosecurity has become less of a significant priority (down a further 2 points) but is still in third place at 9.3%.

Fiscal policy was up 2 points to 8.6%. The Government's books continue to be in good order and the forecasts in the half-year economic and fiscal update remain positive after the May 2019 Budget. The quantum and quality of government spending is a perennial concern for many farmers though.

Supporting agriculture and exporters was up slightly to 7.4%. Climate change policy & ETS was up 2 points to 4.1%, although this is relatively low compared to the big increase in farmer concern about the issue. Most farmers would prefer the Government focus on the economy and would prefer climate change policy to not put the economy at risk.

Other key priorities were mainly stable or up slightly on January 2019.

Figure 10.1 Top twelve perceived highest Government priorities for all farms (January 2019 vs July 2019)

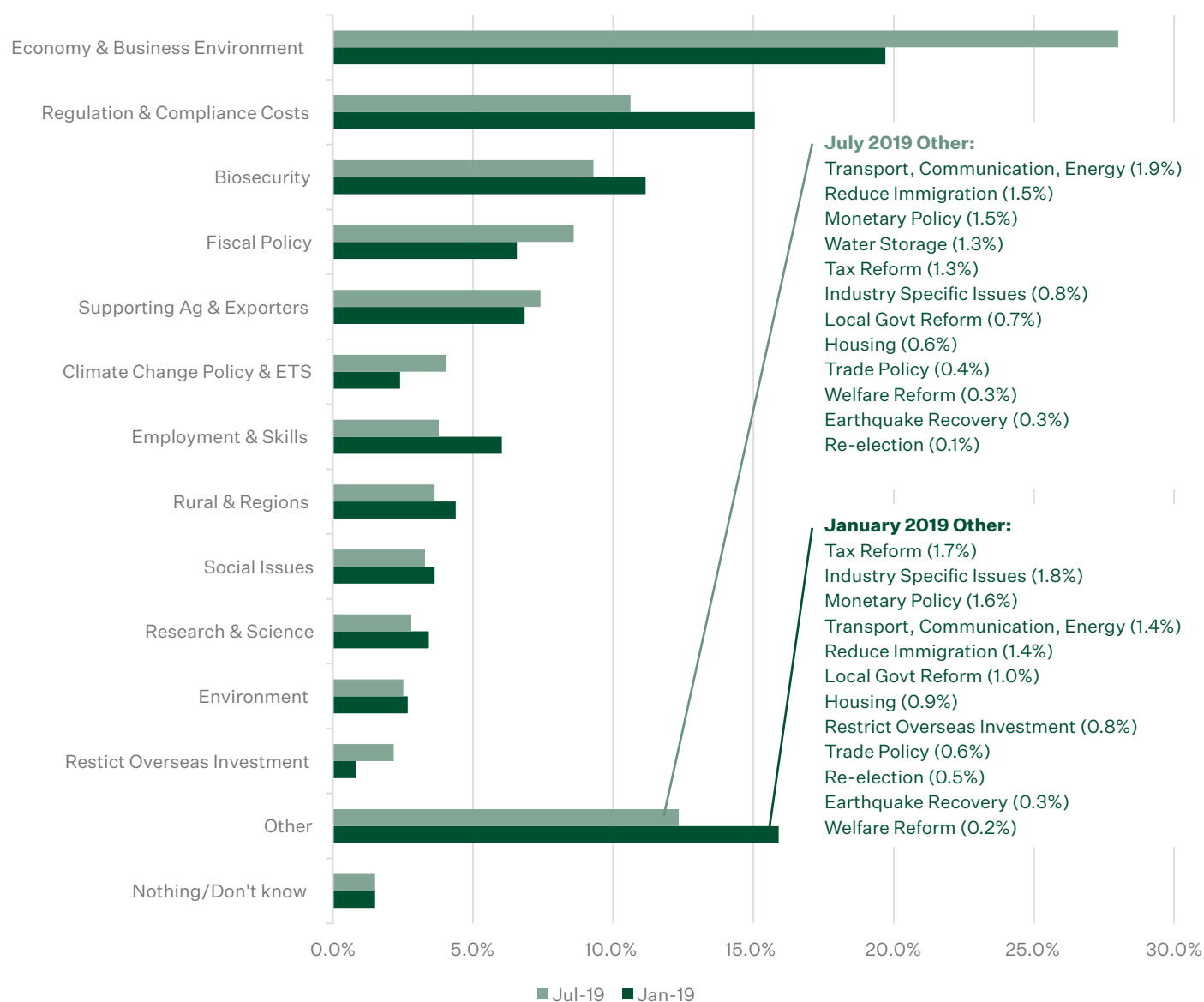


Table 10.1 shows how the top 12 priorities for the government have tracked over the past three surveys

Table 10.1 Top twelve perceived highest Government priorities for all farms over the 3 most recent surveys (January 2018 to July 2019)

Jul-18		Jan-19		Jul-19	
Biosecurity	24.3%	Economy & Business Environment	19.7%	Economy & Business Environment	28.0%
Economy & Business Environment	19.8%	Regulation & Compliance Costs	15.0%	Regulation & Compliance Costs	10.6%
Fiscal Policy	8.6%	Biosecurity	11.1%	Biosecurity	9.3%
Regulation & Compliance Costs	7.2%	Supporting Ag & Exporters	6.8%	Fiscal Policy	8.6%
Supporting Ag & Exporters	6.0%	Fiscal Policy	6.6%	Supporting Ag & Exporters	7.4%
Social Issues	4.3%	Employment & Skills	6.0%	Climate Change Policy & ETS	4.1%
Employment & Skills	4.0%	Rural & Regions	4.4%	Employment & Skills	3.8%
Rural & Regions	4.0%	Social Issues	3.6%	Rural & Regions	3.6%
Research & Science	3.0%	Research & Science	3.4%	Social Issues	3.3%
Water Storage	2.6%	Environment	2.7%	Research & Science	2.8%
Environment	2.2%	Water Storage	2.5%	Environment	2.5%
Transport, Communication, Energy	1.8%	Climate Change Policy & ETS	2.4%	Restrict Overseas Investment	2.2%

11 About this Survey



11 About this Survey

11.1 Research Design

Federated Farmers have been conducting biannual Farm Confidence Surveys since July 2009. These surveys aim to measure farmer confidence over eight key issues faced in the farming profession and community. Members of Federated Farmers are invited to complete these surveys, which run in January and July each year.

The July 2019 survey was completed for Federated Farmers by Research First, New Zealand's leading agricultural market research company. The online survey received 1,432 responses from farmers in four industry groups over 24 provinces (condensed into 7 regions) across New Zealand (Table 11.1).

Table 11.1 Completed surveys by region compared to a recommended weighting

	Number of Respondents	July 2019	Weighting %
Auckland-Northland	95	6.6%	6.1%
Waikato-Bay of Plenty	367	25.6%	23.8%
East Coast NI	191	13.3%	11.0%
Taranaki-Manawatu	213	14.9%	15.3%
WC-Tasman-Marlborough	63	4.4%	5.5%
Canterbury	249	17.4%	19.0%
Otago-Southland	254	17.7%	19.4%
Total	1,432	100%	100%

Similar for all Federated Farmers' Farm Confidence Surveys, results must be treated with some caution. Although the sample reported here is a large one, it is a self-selected sample. Also, smaller numbers of Arable and 'Other' types of farmers mean that results for these industry groups may vary more from survey to survey than for Dairy and Meat & Wool farms.

11.2 About Net Scores

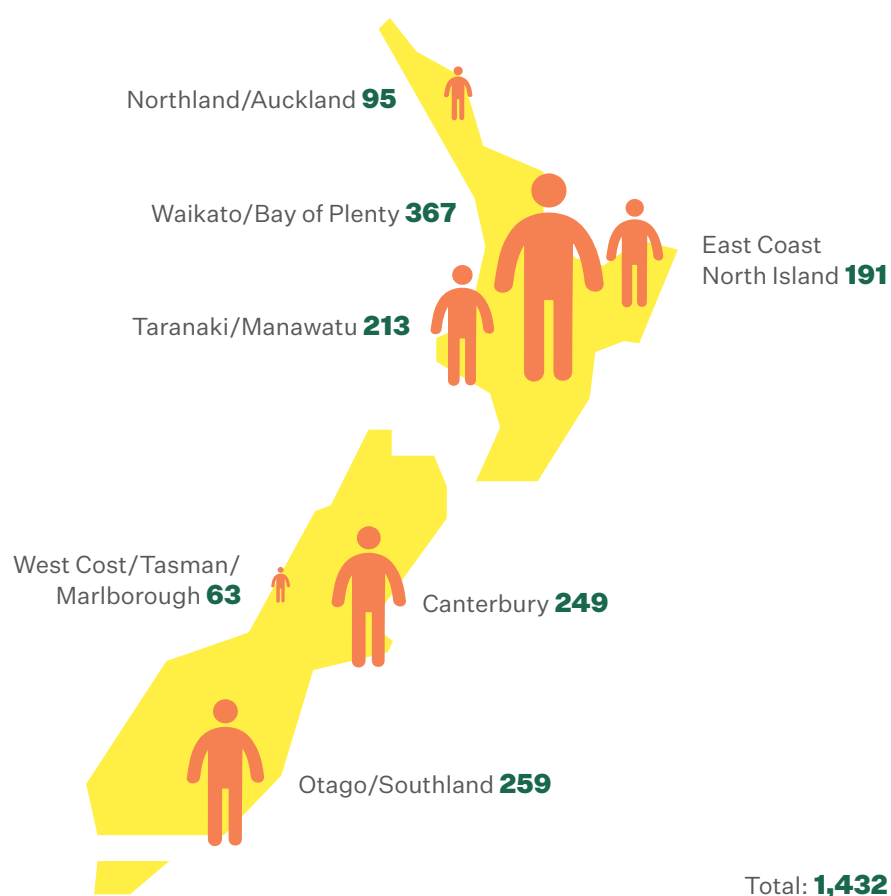
A net score is an index ranging from -100 to +100 that measures the skew of all responses towards one of two possible 'extreme' responses to a question. Typically, and in the case of this survey, the net score is calculated by subtracting the proportion of 'negative' responses (e.g. decrease, worsen etc.) from the proportion of 'positive' responses (e.g. increase, improve etc.). A score of -100 describes a scenario where all responses were negative, 0 reflects that an equal proportion of people responded positively as did negatively, and +100 would mean that all responses were positive.

12 Appendix

12

12 Appendix

12.1 July 2019 Respondents by Industry Group and Location



12.2 What is your main business activity?

	%	n
Dairy	51.6%	739
Meat & Wool	35.8%	512
Arable	3.8%	55
Other industry (inc mixed cropping)	5.7%	81
Supporter	3.1%	45
Other NET	5.0%	71
NET	100.0%	1,432

Total sample; Unweighted; base n = 1432

Multiple comparison correction: False Discovery Rate (FDR) ($p = 0.05$)

12.3 Further Survey Detail

‘Other’ farmers include: Pigs, Poultry, Horses, Bees, Goats, High Country, Rural Butchers, Horticultural Crops (such as fruit, vegetables, and flowers), and Forestry.

12.3.1 The seven regions relate to Federated Farmers’ provinces:

- Auckland/Northland: Northland and Auckland provinces
- Waikato/Bay of Plenty: Hauraki-Coromandel, Waikato, Bay of Plenty, and Rotorua-Taupo provinces
- East Coast North Island: Gisborne-Wairoa, Hawkes Bay, Taranaki, and Wairarapa provinces
- Taranaki/Wanganui/Manawatu: Taranaki, Ruapehu, Wanganui, and Manawatu-Rangitikei provinces
- West Coast/Tasman/Marlborough: Golden Bay, Nelson, Marlborough, and West Coast provinces
- Canterbury: North Canterbury, Mid Canterbury, and South Canterbury provinces
- Otago/Southland: North Otago, Otago, and Southland provinces

12.3.2 Concerns for Farmers: Full List and Detail

- Climate Change Policy & ETS
- Debt, Interest, Banks
- Don’t know
- Economic Situation
- Environment
- Exchange Rate
- Farmgate & Commodity Prices
- Feed & Grazing
- Industry Specific Issues
- Input Costs
- Local Govt & Rates
- Other
- Pests, Disease & Biosecurity
- Political Situation
- Public Perceptions
- Regulation & Compliance Costs
- Staffing
- Viability & Profitability
- Weather

12.3.3 Priorities for Government: Full List and Detail

- Biosecurity
- Climate Change Policy & ETS
- Earthquake Recovery
- Economy & Business Environment
- Employment & Skills
- Environment
- Fiscal Policy
- Housing
- Industry Specific Issues
- Local Govt Reform
- Monetary Policy
- Nothing/Don't know
- Other
- Reduce Immigration
- Re-Election
- Regulation & Compliance Costs
- Research & Science
- Restrict Overseas Investment
- Rural & Regions
- Social Issues
- Supporting Ag & Exporters
- Tax Reform
- Trade Policy
- Transport, Communication, Energy
- Water Storage
- Welfare Reform



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